

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Farmers State Bank of Western Illinois, New Windsor, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 1, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated Satisfactory.

The bank's generally provides credit consistent with its size, financial capacity, location, current economic conditions and the needs of its assessment area. The bank is a strong provider of consumer, small farm, small business and home mortgage loans in its assessment area. Community contacts generally described the bank as an aggressive lender. The bank's loan-to-deposit ratio is reasonable. A significant majority of loans are originated within the defined assessment area. Loans to small farms, businesses, and low-income and moderate-income borrowers are prevalent. The geographic distribution of loans is reasonable and the bank has not received any CRA-related complaints since the previous examination.

The following table illustrates the performance level of **Farmers State Bank of Western Illinois** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FARMERS STATE BANK OF WESTERN ILLINOIS PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No Complaints were received since the previous examination		

DESCRIPTION OF INSTITUTION

Farmers State Bank of Western Illinois, with assets of nearly \$73 million, is a subsidiary of Alpha Banco, Inc., a one-bank holding company. The bank operates six offices in four counties in North Western Illinois. The bank's main office is located in New Windsor with one branch each in Aledo, Alexis, Alpha, Viola and Woodhull. The holding company is housed in the Alpha branch. The bank has successfully expanded its service territory through an expanding network of branches; the Aledo branch was opened on March 30, 1995. With the exception of the Aledo and Woodhull branches, the bank's facilities are the only banks in their respective towns. Competition is derived from AMCORE Bank, Aledo, in Aledo Illinois; a branch of First Financial Bank, in Aledo, Illinois; FSB, a branch of State Bank of Sherrard, in Aledo, Illinois, The National Bank of Monmouth, in Monmouth, Illinois, The Farmers National Bank of Geneseo, in Woodhull, Illinois, and Norwest Bank Illinois, National Association, in Galesburg, Illinois.

The bank offers deposit services and agricultural, commercial, consumer, and mortgage loan products. The bank is involved in government-guaranteed, subsidized, or insured programs through the Farmers Home Administration (FmHA), Small Business Administration (SBA), and Veteran's Administration (VA). The bank also provides access to credit products which it does not offer, such as credit cards and long term mortgages, through its affiliates. The bank's main source of loans is agriculture, which represent nearly 50% of its loan portfolio. There were no factors which would inhibit the bank's ability to provide credit.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank defined its assessment area along townships lines which is permissible under the regulation, only in those cases where the townships lines do not intersect census tracts or block numbering areas (BNAs). In this case the defined assessment area intersected several BNAs. The inconsistency with the regulation was discussed with management and the assessment area was revised during the examination to comply with the regulation. The redefined assessment area on which the examination analysis were based includes one census tract in the Davenport-Rock Island-Moline Metropolitan Statistical Area (MSA) and eight BNAs (1,2,401-404,8701 and 8703).

The assessment area is largely rural and agricultural, and contains only small communities, the largest of which is Aledo with a population of 3,681. However, its proximity to the Quad Cities, Galesburg and Monmouth provide employment opportunities to area residents. Community contacts indicated that the local economy is growing slowly, but there is need for more higher paying nonagricultural employment opportunities. Review of economic data revealed that nonfarm employment, such as manufacturing, transportation and utilities, and construction increased between 1990 and 1993 while the number of farm proprietors

decreased. Agricultural commodity prices have been extremely volatile over the past year, with crops such as grain, corn and beans setting new highs and livestock, such as cattle and hogs remaining low. These changes may affect the farming economy in the assessment area.

All BNAs and census tracts which comprise the bank's assessment area are middle-income and nonminority areas. The median income of the assessment area is \$30,872 and range from \$27,404 in BNA 402 to \$38,158 in BNA 401. The population of the entire assessment area, according to 1990 U.S. Census Bureau data, is 32,727. The population is 98.7% White with no concentrations of minority residents.

Housing in the assessment area is generally older, with houses built prior to 1950 representing 50.5% of all housing and a median housing age of 54 years. The affordability ratio for the assessment area (comparing the median income to the median housing value) is 75.6%, much higher than the State of Illinois ratio of 40.3%. The high ratio is largely the result of the area's low median housing value. The area has a 67.8% owner-occupancy rate, compared to 59.9% for the state. Several community contacts indicated that there is a need for housing in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank was examined for compliance with the fair lending laws and regulations. No evidence of prohibited discriminatory credit practices was detected. The bank's overall performance under the CRA is satisfactory.

Loan-to-Deposit Ratio

An analysis of the bank's six Consolidated Reports of Condition (Call Report) since the previous examination revealed an average loan-to-deposit ratio of 68.56%. The ratio decreased slightly when comparing quarterly 1994 figures to their 1995 counterparts. Comparison of the September 1994 Call Report to the September 1995 Call Report revealed that loans increased more than 7%, while deposits increased more than 10%. The growth in deposits contributed to the lower loan-to-deposit ratio. This ratio is considered reasonable given the institution's size and financial condition, and credit needs of the assessment area.

Lending in Assessment Area

Loans originated in the six months prior to the examination, including the examination loan samples, were reviewed to determine the bank's performance in this category. Small business, small farm, overdraft lines of credit, real estate and consumer loans were sampled. The following table reflects the number and percentage of loans in the assessment area and the geographic distribution of loans within the assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS MADE DURING THE PAST SIX MONTHS							
County-	Small	Small		Real	Consumer		% OF

GEOGRAPHIC DISTRIBUTION OF LOANS MADE DURING THE PAST SIX MONTHS							
Census tract	Business	Farm	Overdrafts	Estate	Non R/E	TOTAL	TOTAL
131-401	6	5	2	9	12	34	7.82%
131-402	5	2	1	0	20	28	6.44%
131-403	8	26	8	8	32	82	18.85%
131-404	27	34	6	9	59	135	31.03%
73-312	16	11	4	6	13	50	11.49%
95-1	3	5	1	3	6	18	4.14%
95-2	0	1	0	0	0	1	.23%
187-8701	0	5	0	1	0	6	1.38%
187-8703	5	23	5	2	4	39	8.97%
IN	70	112	27	38	146	393	90.34%
OUT	11	8	2	10	11	42	9.66%
TOTAL	81	120	29	48	157	435	100%
% IN	86.42%	93.33%	93.10%	79.17%	92.99%	90.34%	

The last row of the preceding table indicates the percentage of loans, by type, that the bank originated in the assessment area. The aforementioned data indicates that the bank originates a substantial majority of its loans in the assessment area. The bank's performance exceeds the standard for satisfactory in this criteria.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's agricultural, small business, consumer and home mortgage loans were reviewed to determine the bank's performance under this criteria. The bank does not consistently collect income information for agricultural, small business and consumer loan applicants. For these loans, the number of loans of differing amounts were analyzed in order to determine the bank's performance.

Small Farm and Small Business Loans

Six months of originations to small farms and small businesses were reviewed to determine the bank's level of lending to these borrowers. According to the instructions for preparation of the Consolidated Report of Condition, small farm loans are defined as those with original amounts

of \$500,000 or less, and small business loans as those of \$1,000,000 or less. The review revealed that 100% of the bank's 299 farm loans were small farm loans and 100% of the bank's 136 business loans were small business loans.

Home Mortgage Loans

A sample of the bank's 1994 and 1995 Home Mortgage Disclosure Act (HMDA) data was reviewed and analyzed to determine the income levels of borrowers. Review of a sample of 102 of the 203 HMDA reported loans in 1994 and 1995 combined revealed the following:

DISTRIBUTION BY APPLICANT INCOME: COMBINED 1994 AND 1995 HMDA					
BNA or Census Tract	Low- and Moderate	Middle	High	NA	TOTAL
131-401	2	0	3	1	6
131-402	0	0	0	1	1
131-403	3	4	4	1	12
131-404	12	11	19	2	44
73-312	5	8	15	3	31
95-1	2	1	3	0	6
95-2	0	0	0	0	0
187-8701	0	0	1	0	1
187-8703	1	0	0	0	1
TOTAL	25	24	45	8	102
PERCENTAGE	24.52%	23.53%	44.12%	7.84%	
%OF HOUSEHOLDS REPRESENTED IN ASSESSMENT AREA	40.9%	22.4%	36.7%		

The last two lines in the preceding table compare the percentage of the bank's loans to applicants of different incomes to the percentage of households of different incomes. The comparisons reveal that the bank originates more home mortgage loans to high income applicants.

Consumer Loans

Consumer loans originated in the six months prior to the examination were reviewed according to loan size. A loan amount of \$2,500 was chosen as an estimate of an amount representative of a low- and moderate-income borrower. This amount is less than 10% of the median household income of \$30,872 for the assessment area. The bank originated 365 loans in amounts less than \$2,500, representing 56.85% of the consumer loans reviewed.

Analysis of the categories of borrowers indicates that, with the exception of home mortgage lending, the bank's performance under this criteria exceeds the standards for satisfactory performance. Management is encouraged to review its home mortgage lending in order to determine if a reason exists for the low percentage of low- and moderate-income applicants, compared to the minority representation in the population. Management is further encouraged to take action to increase its home mortgage lending to these borrowers.

Geographic Distribution of Loans

The bank's assessment area is comprised entirely of middle-income areas. An analysis of the bank's lending during the six-month period preceding the examination revealed that the majority of the loans originated the townships the bank identified as its assessment area. There were three BNAs where approved loans represented less than five percent of the bank's total lending. Two of these were the Knox County BNAs and one was a Warren County BNA. A review of those areas and interviews with management revealed that the areas with little activity were near large population centers, namely Galesburg and Monmouth. These areas are furthest from bank offices and the competition from lenders in those communities is great. The bank's geographic distribution of loans is reasonable.

Response to Substantiated Complaints

No complaints were received by the institution or the Federal Reserve Bank of Chicago regarding the bank's CRA performance since the previous examination.